TECHNOLOGY NEWS

Postal ATM Plan Defended

By YVETTE D. KANTROW

NEW YORK — A U.S. Postal Service official said Tuesday that, contrary to some bankers' assumptions, post offices attract enough customers to provide ample demand for automated teller machines.

The Postal Service this week is requesting proposals from financial institutions interested in installing ATMs in 700 post office lobbies.

"More than 6 million transactions are conducted every day nationwide in postal lobbies," Gordon Morison, an assistant postmaster general, said in a telephone interview. "Almost every household has a member that makes a visit to a postal lobby on a monthly basis."

Doubts on Volume

As news of the ATM plan spread this week through the electronic banking industry, some bankers said that post office ATMs may not be able to generate enough transaction volume to make the machines cost-effective.

But Mr. Morison said a Postal Service pilot program with BankAmerica Corp.'s Seattle-First National Bank – now in its sixth month – has demonstrated a demand for post office ATMs.

Seattle-Area Transactions

"Transactions have been growing, and we've had inquiries from other banks," he said. Transaction totals for the Seattle-area test have not been disclosed.

The Seafirst pilot program will be expanded this year to test the ATM dispensing of "plastic stamps." The stamps were designed specifically for ATMs, Mr. Morison said. They will have a self-adhesive backing and be printed in sheets of 12 that have the same dimensions as dollar bills. □

U.S.-Built Trading System in Tokyo

By JEANNE IIDA

NEW YORK — Mitsubishi Bank has installed a trading-floor system in Tokyo designed by Sun Microsystems Inc. and Micrognosis Inc. that the companies say improves traders' ability to manage risk and identify trading opportunities.

In a major sale of high-powered financial-workstation technology developed in the United States, Mitsubishi bought more than 300 Sun workstations equipped with trading software from Micrognosis.

The development is similar to one announced last week by Bankers Trust New York Corp. and Digital Equipment Corp. While the 250-terminal Bankers Trust system in London can receive information in a digital format only, the system at Mitsubishi receives information in both the digital format and in the more common video format. Both the Bankers Trust and Mitsubishi systems have been online since December, and details are only now becoming public as competition among trading-floor vendors heats up.

Need to Manipulate Data

Many banks want systems that are capable of receiving digital information that is easily manipulated and analyzed on a workstation, said James L. Williams, vice president of marketing for Micrognosis. Video information can only be displayed.

But banks are reluctant to switch entirely to digital format, because only a handful of market-data feeds – such as Telerate and Reuters – are now available in digital form, Mr. Williams said.

"Micrognosis is providing an environment where customers can slowly migrate to a digital environment," said Jordan Graham, financial services marketing manager for Sun.

The workstations are multitasking, meaning that the computer can perform several functions at once, with some taking place off the screen. Traders can display information from several external data sources at once, and from programs running on computers within the bank. At the same time, the workstation can perform analytical calculations on data extracted from one of the sources.

The systems range in price from $15,000 to $40,000, Mr. Graham said. □

Survey Gives Check Imaging a Boost

Continued from *page* 1

Few companies use images in customer statements because the technology is so new. Among those that do are First Interstate Bank of Washington, a unit of First Interstate Bancorp, and American Express Travel Related Services Co., which sends images of sales drafts with monthly account statements.

American Express positioned its service as a customer benefit by calling it "enhanced country-club billing."

1,024 Consumers Took Part

Since image technology is new to the public, Trans Data sent a sample statement with check images to 1,024 randomly selected consumers who had previously been screened and agreed to participate.

More than half the consumers who preferred copies of check images said they would pay more to get such bank statements. Most also specified they would pay $2 or more a month extra.

Of consumers who preferred to get original checks with their statements, 34% said they would be willing to accept copies of check images if it cost them less than regular statements.

The survey strongly indicated that banks not installing image-based check processing could lose customers to banks that do.

Many Potential Switchers

A "significant portion" of consumers in the study said they would switch to another bank if their bank did not offer copies of checks produced by imaging systems. Under an agreement with the study's sponsor, Trans Data could not divulge the actual proportion of potential switchers. □

Mellon Launches Check-Issuing Service

By JEANNE IIDA

NEW YORK — Mellon Bank has introduced a payment service that takes over a company's check printing and mailing process and provides a link to a financial electronic data interchange.

The service is aimed at companies that are trying to streamline paper-based accounts-payable systems, the company said.

Mellon's cash-management group is offering the product, called the Check Issuance Service. The service generates and mails all the check payments a company must make, regardless of which bank the check is drawn upon.

Companies frequently need to maintain numerous check-issuing locations or store various check stocks in a central location, according to Mellon. The new service simplifies that process and improves security, the bank said. The service can be used to handle regional payrolls, dividends, or general accounts payable.

It generates and mails all the check payments a company makes, regardless of which bank the check is drawn upon.

Out of the Check-Writing Mode

"We view this as a major transitionary product," said James Stasik, senior vice president and group head of global cash management for Mellon Bank.

"This gets companies out of the check-writing mode," he said. "One step is to stop generating paper internally," as the check-issuance service does. "The next step is to stop generating paper externally," using the electronic data interchange, which automates the company-to-company exchange of trade documents and payment information.

Link to Remedi

Mellon can generate checks drawn on its own account or on another bank's account. If the checks are drawn on Mellon's account, however, customers can also access information about issued, paid, and stopped checks via Telecash, Mellon's information-reporting and transaction system.

The service can also be linked to Mellon's financial EDI service, called Remedi.

Mellon will transmit the check register in a format the customer wants, either electronically or on paper. □

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COMPUTROL

COMMENT / *By Michael E. Volpe and Ronald L. Koprowski*

Managers Must Set Example In Treatment of Employees

A branch employee gets an idea to increase the number of new accounts. He wants to photocopy some hokey, generic certificate that entitles the bearer to three months of free checking or share drafts if he or she opens a new account. Each teller would then give the certificates indiscriminately, while asking the customer to "tell a friend about us." You're the branch or district manager in charge: What do you do?

Most managers would thank the employee for the idea but suggest that the marketing department handle it. Some managers would deprecate the idea as "beneath our image." What actually happened? (This is a true incident.)

In the institution where this occurred – one of the largest banks in America – the employee was empowered to make this decision for himself. He photocopied 1,200 of these hokey certificates and gave them out. Result: 600 new accounts were opened. So much for "our image."

Key Is Management Attitude

What is the point to this? It is not that this was a good idea. In some other place, at some other time, this idea may have not worked at all.

But it does show that when employees have the confidence of their managers, they can and will relate to the customers with improved service and attention and thus higher productivity. The key is not the certificates but management's attitude toward workers.

Thomas Horton, in the *San Francisco Chronicle,* has reported the results of academic studies at major universities. They can be summarized very succinctly, thus: Staff members treat customers the same way management treats them as employees.

Don't Disregard the Obvious

This result should not surprise us (it sounds very similar to the Golden Rule, doesn't it?), but its obviousness is often disregarded by managers. If managers, however, learn to use this principle every day, they can dramatically increase the productivity of their staff.

A typical case involves a company committed to protecting the integrity of its credit procedures. As a result management had developed, and staff were commanded to follow, systematic procedures to eliminate the 5% of routine customer abuses.

Customers who requested a correction to their accounts needed to comply fully with the procedures. If they did not, delays would occur. Does this seem like a reasonable management practice? It is certainly responsible in terms of protecting the institution.

'Employees mirror the attitudes of their managers and the 'culture' in which they work.'

From the customers' perspective, this approach was a disaster. The problem was simple: 95% of the decent, honest customers were being treated as if they were part of the 5% of troublemakers.

The true harm of this policy was felt when the institution tried to change to a "user friendly" credit procedure. The employees were reluctant to adopt the new system because they still believed that management would punish them when credit problems were discovered.

Here was a case where management's initial success at stopping credit abuses led to later difficulties in correcting poor service problems. Management ultimately realized that over the long haul the restrictive procedures reduced employee productivity and profitability.

Employees Mirror Managers

Employees do in fact mirror the attitudes of their managers and the "culture" in which they work. They do not necessarily mirror their managers' policies. "Do as I say, not as I do" doesn't fly in the workplace.

Too often when we experience incidents of poor customer service, we fail to recognize that often the employee is mirroring the work habits of a larger organizational culture. Since poor service is the red flag of low productivity, every occurrence can be expensive to the company.

An outrageous but true example occurred several years ago when a shopper approached a new accounts person whose desk was buried in piles of unfinished work and inquired about some of the institution's accounts. The service representative responded, "I'm much too busy. Why don't you go across the street to the competitor and open the account over there, because they have a very competitive account."

Not an Isolated Example

It would be easy to dismiss this case as an isolated example – it is certainly an extreme one – but that would not be wise. The representative felt that he was being more helpful in sending the prospective customer away.

To the outside consultant this was one of many symptoms of a management culture that was insensitive to employee concerns. Management was, in effect, unconsciously training its staff to be counterproductive. If this employee had not felt considerable pressure to put a higher priority on the "work" on the desk rather than the new prospect, he might well have opened a new account.

As consultants, we see examples of this mirroring effect every day. One of our colleagues has an insurance client who lets customer claim forms pile up in cardboard boxes when the paper flow gets too intense.

Round File Method

They manage this pile in a very interesting way. They don't process the claims; they throw them out after six months. . . . After all, they rationalize, in six months most customers either

See **TREATMENT** *page* **15**

Mr. Volpe is a communications consultant and trainer based in New York. Mr. Koprowski is a vice president and Northeast regional manager at Omega Consultants to Bank Management.

GRAPEVINE / *By Jed Horowitz*

Trading Whiz Slows Down. Jay Pomrenze, a Bankers Trust *wunderkind* who manages its worldwide trading activities, is winding down his activities and may leave the bank by summer, sources say.

Mr. Pomrenze, who is an ordained rabbi, plans to take a leave of absence to spend time with his family in Israel, according to sources, and will not formally resign. He was promoted to head all trading in 1988 after Bankers Trust reported a record gain in the foreign currency unit he headed. Mr. Pomrenze, 39, joined Bankers Trust in 1973, fresh from graduate school at New York University.

"Jay is a frenetic human being," speculated a former colleague, "and he may just want to slow down."

At an analyst's presentation last year, global markets chief Eugene B. Shanks pointed to Mr. Pomrenze to illustrate that "quality, tenured staff" is Banker Trust's greatest strength in managing its trading risk.

* * *

Fury at the Fed. Staffers at the Federal Reserve Bank of New York say a furious E. Gerald Corrigan has imposed a temporary job freeze and a 10% cut in travel plans after reviewing their budgets for 1990.

Mr. Corrigan, the bank's president, summoned senior managers late on a Friday afternoon last month to announce the austerity plan after discovering they had exceeded his $275 million budget target by $3 million.

One source says Mr. Corrigan, a career Fed employee, is considering a run for public office and wants to show that he can tightly manage a 3,900-person business.

Nonsense, replies Fed spokesman Peter Bakstansky. "He's an apolitical guy who loves what he does and is proud of his sound internal management skills."

The spokesman confirms that Mr. Corrigan has imposed a three-month hiring freeze and travel cutbacks. That's because Federal Reserve banks try to live within strictures of the budget-trimming Gramm-Rudman law, though they are not technically subject to it, Mr. Bakstansky said.

* * *

No Ford In Its Future. About a dozen senior managers of American Residential Mortgage Corp., First Nationwide Bank's large mortgage-banking unit, are moving to buy the 44-branch company, say industry sources.

First Nationwide, the thrift unit of Ford Motor Co., bought American Residential just two years ago. It wants to shed it as part of a broad strategic refocusing, sources say.

American Residential, which originates about $3.5 billion of mortgages a year, was put on the block around September. An unidentified venture capital concern is working with senior managers, sources say.

John M. Robbins Jr., president of American Residential, declined to comment.

* * *

Civil Banking Wars. Last week's fracas about possible capital-rule infractions at the AMBAC mortgage insurance subsidiary of Citicorp was instigated by Sen. Steve Symms, R-Idaho, who sits on no banking committee. What piqued the senator's interest?

"The capital question was called to our attention by a constituent bank in Idaho," says Joseph Cobb, a Symms staffer. "It's a small bank," which fears that evasion of capital rules "could cause another S&L problem." He would not identify the institution.

A Manhattan public relations firm released correspondence between the senator and banking regulators that indicates Citicorp and other bank owners of insurers must beef up capital to maintain their units under new risk-based capital requirements.

Financial Guaranty Insurance Corp., an AMBAC competitor, first raised the issue last year but denies any tie to Mr. Symms. Until last year, J.P. Morgan & Co. controlled about 20% of FGIC but sold its stake to a unit of GE Capital Corp. A Morgan spokesman said the sale was unrelated to the risk-based capital rules. Citicorp officials insist they will keep AMBAC and remain in compliance with capital rules.

* * *

Coast-to-Coast Cuts. California Federal Bank, the nation's fourth-largest thrift, laid off about 120 data processing and administrative employees in the past two weeks, a spokesman for the California thrift says.

He flatly denied a market rumor that up to 600 people had been axed in a cost-cutting move.

On the East Coast, Marine Midland Banks' radical restructuring puts the kibosh on any money-center aspirations it once harbored. The New York institution, owned by Hongkong and Shanghai Banking Corp., is phasing out various corporate lending units – including its leveraged transaction units – and focusing on community and middle-market banking, a spokesman says. He would not reveal the number of employees being fired.

Phil Roosevelt contributed to this column.

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PC Usage Alters Customer Relationships with Trust Banks

By RICHARD LAYNE

NEW YORK — A boom in global investing is changing the way banks provide custody service to their big institutional clients. Customers armed with personal computers are demanding more information more often, and big banks are pouring millions of dollars into their computer systems to rev up a technologically sleepy business.

Northern Trust Co., one of the 10 biggest trust banks, is testing a new computer system in its London office. The system will be installed over the next six months. Chase Manhattan Bank, which leads U.S. banks with $90 billion in foreign-based assets under custody, is part way through a complete overhaul of its system.

Independent processors, such as SEI Corp., Wayne, Pa., which provides global custody service for more than 30 of the 100 largest banks, are also adding more reporting features to their software.

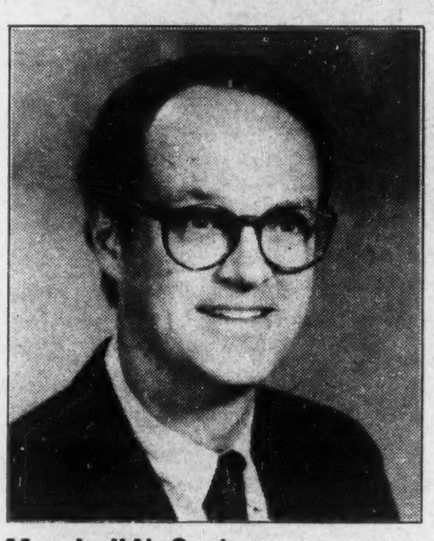
"We are changing our view of this business," said Marshall N. Carter, senior vice president at Chase. "This used to be mainframe transaction processing type of business. It is rapidly becoming an information business, providing investors with information on their portfolio."

Chase, SEI, Bankers Trust Co. and others are encouraging their customers to use personal computers to tap into the trust systems.

Customers Focus on Data

Trust service providers will continue to perform the transactions that are at the core of the business, recording the sale or purchase of a security. But customers have come to focus on the information around that transaction, from reconciling dividends to managing cash positions. Banks are redoing or building custody systems that allow daily updates – rather than monthly reports that have been the norm – about the status of transactions and the cash position. That information can help a fund manager decide what holdings to buy or sell. Increasingly, those trading decisions involve foreign-issued securities.

Before 1980, less than 1% of an institutional investor's portfolio was in foreign-issued securities. But a move toward diversification has increased that considerably, although domestic investment still accounts for more than 95% of both public and private fund portfolios, according to Northern Trust. In 1989, U.S. pension funds had $200 billion invested abroad. Bankers predict that figure will



Marshall N. Carter
Chase Manhattan

reach $500 billion by 1993. Some large funds have as much as 10% of their investments in foreign-issued securities.

Globalization and Growth

"Globalization on the part of our domestic clients is what has drawn us into the business and has provided a large part of our growth in the past couple of years in master trust and master custody," said Jeffrey F. Ruzicka, senior vice president at Northern Trust, which derives nearly half its operating income from fees for trust and other services. The Chicago-based company has $17 billion in foreign-issued assets under custody, almost 10% of its overall $220 billion in custody assets.

That increase in global custody business warranted an investment in the supporting computer systems, which have not provided the as much on-line information as domestic custody systems. "We have to offer a common level of service no matter where a client has its assets," said Jon E. Socolofsky, senior vice president at Northern Trust.

Project with Nynex Unit

Northern Trust's new system, which has been a two-year joint development project with BIS, a unit of Nynex that specializes in software for international business, is designed to let customers find out more information on the value of portfolios via a desktop personal computer. The new system allows an improved, daily reporting of foreign currency positions – critical for funds managers evaluating potential risk due to monetary fluctuations.

Customers with personal computers are demanding more information more often.

Last March, Chase Manhattan started to allow its mutual fund and pension fund customers to use personal computers to check the status of their portfolios daily. More than half of their customers can now use a personal computer to look at their asset holdings, dividends, and failed trades on a daily basis. The bank also upgraded its multicurrency accounting process, enabling customers to get daily reports rather than wait for a monthly review.

Chase plans to make other aspects of global custody processing available electronically to its customers, including tax reclamation and notices of corporate actions. "This type of service is a logical progression," said Peter Derrenbacher, vice president at Chase. "If you call up the phone company, they hit a button and get your history on line."

Last year, SEI offered customers access to its Invest 3000 system via personal computer. James R. Spencer, senior vice president of the Wayne, Pa.-based company, said that he is currently working on making the trust information available through a user-friendly overlay called Windows, a software program with graphic capabilities sold by Microsoft Inc. □

STRATEGIES

Private-Banking Clients Attracted By Access to PCs

The demand for readily available information on investment porfolios is not limited to institutions and fund managers. As part of private-banking services, some banks are letting customers monitor their investment portfolios the way big pension funds do.

Northern Trust Corp. is one of the custody service providers that let select private banking customers access trust accounting systems via personal computer. Smaller trust operations, such as Marine Midland Banks, also offer this service to high-net-worth individuals. Units of CoreStates Financial Corp. plan to offer a similar service.

As providers of custody services, these banks safekeep securities and perform the necessary record keeping, cash management, tax reclamation, and corporate actions. Banks may also as a trust managers for private-banking individuals, investing and managing their assets. Typically, institutional investors use outside money managers for investment advice and depend on banks to do the record keeping regarding the sale and purchase of assets.

Marine Midland which uses Wayne, Pa.-based SEI Corp. to provide custody processing, began offering institutional and private-banking clients access from personal computers 18 months ago.

Several high-net-worth individuals – along with 20 institutional investors and other funds – now check their portfolios, under bank custody, via personal computers, according to SEI.

CoreStates, another SEI client, plans a similar service for high-net-worth individuals, although CoreStates bankers said there is no set date for the introduction. CoreStates said that adding such a service is technologically easy, but it must be bundled with other banking services.

Northern Trust has a slightly more exclusive approach. The bank offers this service only to individuals whose assets and use of money managers are akin to an endowment or a pension fund, said Jon E. Socolofsky, senior vice president at the Chicago-based bank company.

"They want a package of services that looks like a pension plan or an endowment," Mr. Socolofsky said. Typically, those individuals may use several money managers to invest their assets.

For those high-net-worth individuals, the electronic delivery of information is part of a package of services offered by the bank. "That is not the normal service to provide or be asked for by the majority of our personal banking clients," Mr. Socolofsky said.

— **Richard Layne**

ISSUES

Big Network Management Purchases Set

By KAREN GULLO

NEW YORK — Financial institutions are planning major purchases this year of computer systems that manage communications networks.

These network management systems are key to banks and other companies whose very survival depends on the reliability of both voice and data communications. An hour of network downtime could cost a bank hundreds of thousands of dollars.

Senior information-systems managers at banks, financial institutions, and other corporations ranked network management as the No. 1 emerging computer technology in a recent survey by the Index Group, a Boston consulting firm.

50% Spending Rise Planned

Banks plan to increase spending for network management products by an average of nearly 50%, according to a separate survey by Business Research Group, Newton, Mass.

And banks are paying their network management executives more, too. The average salary of a network manager in the financial services industry rose 7.2% in 1989, to $56,954, from $52,322 in 1988, according to a survey by *Network World*, a trade publication.

Popular Vendors

Networks bankers would consider buying

IBM	62%[1]
AT&T	32
DEC	28
Cincom Netmaster	15
MCI	13
Hewlett Packard	4
Sprint	4
Other	6

Source: Business Research Group, Newton, Mass.
[1]Percentages total more than 100 because some bankers are considering more than one system.

Banks are particularly interested in acquiring products that consolidate management of various network levels under a single umbrella. Integrated network management systems simplify the monitoring of network behavior and performance by automating many reporting functions now done manually.

Nynex System Installed

Just last week, National Westminster Bank USA installed an integrated network system from Nynex Corp. in its Melville, N.Y., network control center. The system will simplify management by consolidating information from 10 systems. A key component is artificial intelligence software that alerts bank managers to network problems.

Network management systems carry a high price tag, so bankers, most of whom are buying these systems for the first time, are cautious.

"Everyone is doing a lot of looking," said Patricia A. Farwid, vice president of the information processing group at Mellon Bank, the Mellon Corp. subsidiary. "The prices range from a quarter of a million to $800,000."

Mellon Considers AT&T

Ms. Farwig said Mellon has evaluated a network management system from American Telephone & Telegraph Co. "It has the best design in terms of future direction but still has a hefty price tag," she said. "And the product is not complete, so you'd be buying into what's to come." The system costs $300,000 or more, depending on the configuration.

The AT&T system is among bankers' leading choices, according to the Business Research Group survey. Of the 47% of surveyed banks that said they planned to install an integrated network management system, 32% said they were considering AT&T (see chart).

But 62% of the banks are considering the NetView system from IBM Corp. □

With Drexel Hurt, Risk May Rise for S&Ls

By BILL ATKINSON

WASHINGTON — Stunned by news of the financial problems at Drexel Burnham Lambert Group, financial analysts warned that large junk bond holders in the thrift industry could take a financial beating at the end of this quarter when they report the value of their holdings.

Nearly 200 thrifts held junk bonds worth about $13 billion in their investment portfolios as of Sept. 30, said thrift regulators. And the Resolution Trust Corp., the government's conservator of seized thrifts, recently has seen its junk bond holdings swell to $2.6 billion. Analysts say RTC holdings include some of the weakest portfolios in the junk bond industry.

Drexel Needs Billions

Drexel, the Wall Street firm that embraced the market for high-risk, high-yield bonds, said it would need hundreds of millions of dollars in financing to pay off short-term borrowings. The announcement could hurt S&Ls, which under the 1989 thrift-bailout law are required to dispose of all junk bonds by 1994 or put them into a separate subsidiary.

S&Ls recently began marking-to-market their junk bond portfolios, and if the current declines persist in values registered by junk bonds, S&Ls could suffer losses, said Bert Ely, a thrift consultant.

"If that market doesn't come back by the end of March, we are going to see some institutions taking some hits on this," Mr. Ely said.

Additional Market Pressure

"If Drexel is experiencing problems in its role of making a secondary market in junk bonds, it could put additional pressure on junk bond markets," said Steven Roberts, a principal with Peat Marwick Main & Co. If the problems are corrected in a short period of time, there may be no lasting effect, he suggested.

"There are going to be some hurts out there," Mr. Ely said. "One of the problems right now is that the market has lost a lot of its liquidity. It is going to be a while before the market loosens up and starts to return to a normal condition."

One thrift in particular that Mr. Ely is concerned with is Beverly Hills, Calif.-based Columbia Savings and Loan, which at the end of September had 35.4% of its assets tied up in a $4.1 billion junk bond portfolio, according to Sheshunoff & Co. of Austin, Tex. Columbia officials could not be reached for comment before press time.

Besides Columbia, other large junk bond holders include California's Imperial Savings and Loan of San Diego, with a $1.3 billion portfolio; American Savings Bank of Stockton, with a $493 million portfolio; and Miami-based Centrust Bank, with $714 million portfolio.

Centrust recently failed and could pose a problem for the RTC. According to Kenneth H. Thomas, a Miami bank and thrift consultant who follows the junk bond market, 90% of Centrust's portfolio is made up of Drexel junk bonds. He said they are particularly risky because "most of Drexel's junk bonds did not syndicate out to other houses."

"I'm not at all optimistic for the short- or long-term prospects of the junk bond market. Everything that has happened to date has happened when the economy has remained fairly strong," he said."

Mr. Thomas said the RTC has a $2.6 billion junk bond portfolio and missed an opportunity between last March and June to sell much of it. "I have some serious questions of what the overall strategy of the RTC is."

Henry Peltz, an analyst with Keefe, Bruyette & Woods, said some institutions are already bailing out of the junk bond market. Northeast Savings' portfolio dropped to $25.7 million at the end of 1989, compared to $379.6 million at the end of 1988, Mr. Peltz said.

Mr. Peltz called Drexel's announcement "sinister," saying that confidence in junk bonds may continue to erode and corporations may have more problems attaining capital to pay off debts.

There is some hope for a recovery, however, Mr. Ely said. "We have a serious emergency situation, but it will bounce back some."

Mr. Ely expects that S&Ls will hold on to their junk bonds until the market corrects itself. "People are not going to be dumping this stuff in a panic," he said. □

Top Thrifts in Holdings of Junk Bonds
Totals as of Sept. 30, 1989 (dollars in millions)

			Percent of total assets
1.	**Columbia Savings & Loan,** Beverly Hills, Calif.	$4.114	35.41%
2.	**Imperial Savings Assn.,** San Diego	1.316	11.96
3.	**Centrust Bank,*** Miami	0.922	10.28
4.	**Cityfed Savings,*** Bedminster, N.J.	0.715	7.28
5.	**Far West Savings & Loan,** Newport Beach, Calif.	0.667	13.99
6.	**American Savings Bank,** Stockton, Calif.	0.494	3.09
7.	**First Gibraltar Bank,** Houston	0.457	4.66
8.	**American Savings & Loan of Florida,** Miami	0.449	8.95
9.	**Lincoln Savings & Loan,*** Irvine, Calif.	0.339	9.19
10.	**United Savings Assn. of Texas,** Houston	0.253	7.07

* Thrifts in the conservatorship program of the Resolution Trust Corp.
Source: Shk, Securities

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AMERICAN BANKER

VOL. CLV NO. 32 Thursday, February 15, 1990 year

Imaging May Do Double Duty If Appeal Is Real

By KAREN GULLO

NEW YORK — As bankers investigate – and in a few cases begin installing – image-processing systems to cut operating costs, it is becoming apparent that this technological advance is no longer an issue only for technologists.

Most attention to date has been on reducing or eliminating paper documents in banks' back-office operations. But research is beginning to show that image processing has widespread marketing appeal that can have an impact on the entire industry, and not just on the big banks that have already found uses for the technology in operations hidden from public view.

ANALYSIS: *Follow-up on the news*

"Every bank is going to have to look at justifying the technology in areas other than cost cutting," said Charles McDonough, a partner with Andersen Consulting, Detroit.

One intriguing possibility is that consumers would be drawn to a service in which canceled checks, normally returned with monthly bank statements, would be replaced by miniaturized copies that are easier to handle and file.

More than half of consumers responding to a survey late last year by Trans Data Corp. said they would prefer images to canceled checks, and many said they would switch banks to get such a service.

In another survey by Trans Data, an affiliate of the *American Banker*, 30% of responding bankers said they are interested in implementing imaging systems for check processing, remittance/lockbox, and mortgage loan applications within the next five years. One of the long-term benefits of the technology, the bankers said, will be in the area of printing statements from stored images.

Cost-Saving Benefit

But the short-term business case for image technology at most banks is weighted heavily on the side of reduced administrative costs – and for good reason.

"We're implementing it just on the business case that it will save us $65 million in operating costs, without even looking at the marketing aspects," said Jack A. Brown, first vice president at Security Pacific Automation Co. "But in the long term, we will have to leverage the technology everywhere we can."

See **IMAGING** *page* **3**

INSIDE NEWS

FINANCE

NORTHEAST BANCORP and Citytrust Bancorp have regained lost ground in the stock market, thanks to Connecticut's new consensus on interstate banking. Both companies are viewed as takeover targets. *Page 20*

CONSUMER

MASTERCARD will extend to its business cardholders the same purchase protection available on its gold cards. *Page 6*

TECHNOLOGY

NCR CORP. announced a line of software that will allow its computers to work with computer systems and software from other suppliers. *Page 3*

INTERNATIONAL

CHEMICAL BANKING Corp., the most profitable foreign bank in asset management in Japan, expects to post another banner year there. *Page 12*

MANAGEMENT

SUSAN J. STEHLIK, vice president and personnel manager of Nippon Credit, recruits American talent to fill the middle-management void in the U.S. operations of the Japanese bank. *Page 8*

COMMENT

THE MESSAGE from the markets is that the economy may be in for a harder than expected landing, writes Stephen H. Axilrod. *Page 4*

OTHER NEWS

MIDWESTERN BANKS posted profit gains of 3% to 4% after taking writedowns and adding to loan-loss provisions. *Page 2*

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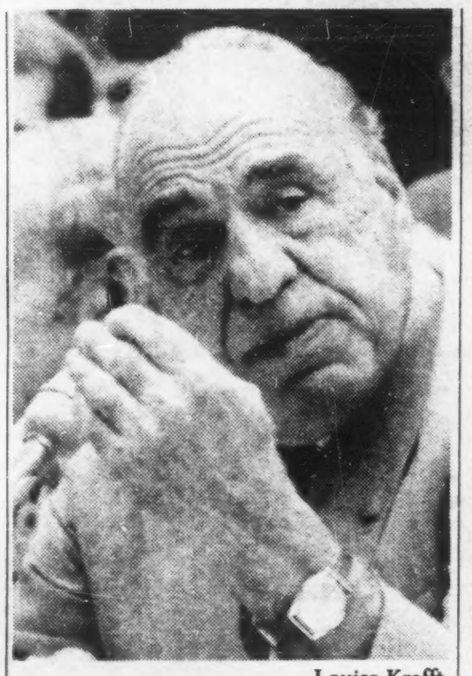


Louise Krafft

Henry B. Gonzalez
House Banking Committee

Gonzalez Says $100,000 Ceiling Favors Affluent

By ROBERT M. GARSSON

WASHINGTON — Henry B. Gonzalez, chairman of the House Banking Committee, jumped into the deposit insurance debate Wednesday, charging that the present $100,000 coverage amounts to "government guarantees for the most affluent in the society." He has scheduled hearings on deposit insurance to start Feb. 21.

Taking direct aim at an issue that strikes an emotional chord among bankers, especially those from community institutions, the populist Texas Democrat said banks and their customers have no "divine right" to coverage of $100,000 per account.

Community banks, however,

See **INSURANCE** *page* **5**

First Interstate Sells 40% of Issue to KKR

By SAM ZUCKERMAN

SAN FRANCISCO — In a move that could make it a takeover target, First Interstate Bancorp announced Wednesday that a partnership affiliated with the leveraged buyout firm Kohlberg Kravis Roberts & Co. has bought about 40% of the troubled company's 8.6 million-share public stock offering.

The KKR group's agreement to buy 3.5 million shares for $115 million gave First Interstate the boost it needed to successfully complete the stock offering, which allowed the company to raise $276 million. The company plans to use most of the money to shore up its troubled Texas unit.

However, an adviser to First Interstate acknowledged that the massive investment by a group connected to one of the country's most renowned acquisition specialists could put the company into play.

"That's a risk," said the adviser, who asked not to be identified.

With stocks of banks across the country down as much 25% to 30% in the past four months, some observers say that the banking industry may now experience a surge of takeover speculation.

"For speculators and arbitragers, the pieces may be worth more than the whole," said Michael J. Conover, a Los Angeles investment banker. "They might feel comfortable that they could make some money."

Former Treasury Secr[illegible]

William E. Simon and his merchant banking partners, for example, stand to more than double a $60 million investment in First Interstate Bank of Hawaii made one year ago if a planned sale of the bank to First Hawaiian Bancorp goes through.

'For Investment Purposes Only'

A First Interstate spokesman denied the Los Angeles-based company is a takeover target. And KKR, which has reaped millions of dollars in profits by orchestrating corporate restructurings, indicated its purchase

See **FIRST** *page* **7**

The Aftermath of Drexel's Collapse

Regulators Not Likely to Treat A Big Bank Failure Same Way

By ROBERT M. GARSSON

WASHINGTON — Despite the spectacular collapse of Wall Street giant Drexel Burnham Lambert Group Inc., the doctrine that some commercial banks are too big to fail appears to have survived intact.

Regulators, representatives from the financial services industry, and congressional aides all seem to agree that the differences between broker-dealers and insured commercial banks are too great for the Drexel bankruptcy to affect the future handling of big bank failures.

"I just don't see that there's much relationship between the failure of a firm like Drexel and that of a big bank," said Lyle Gramley, a former member of the Federal Reserve Board and now chief economist for the Mortgage Bankers Association.

Federal Deposit Insurance Corp. Chairman L. William Seidman reiterated Wednesday that the too-big-to-fail doctrine was a fact of life,

See **DREXEL** *page* **7**

12 Banks Still Lending to Broker After Parent's Bankruptcy Filing

By JED HOROWITZ

NEW YORK — Although Drexel Burnham Lambert Group Inc. filed for bankruptcy Tuesday, about a dozen banks continue to provide several hundred million dollars in overnight loans to the company's broker-dealer subsidiary as it seeks an orderly liquidation, bankers said Wednesday.

Funding is continuing "at approximately the same levels" at which Drexel borrowed last week, the head of broker lending at a New York money-center bank said. Neither he nor Drexel would put a number to the borrowing, but the firm is known to have sought at least $250 million Monday to replace commercial paper and other lost sources of funding.

The banker said regulators have not pressured banks to continue lending.

Despite fears that the broker-dealer could plunge into insolvency as rapidly as its parent, the banks have strategic and business interests

See **BROKER** *page* **14**

PEOPLE *in the news*

Citibank Hires GE Executive Known for Urban School Aid

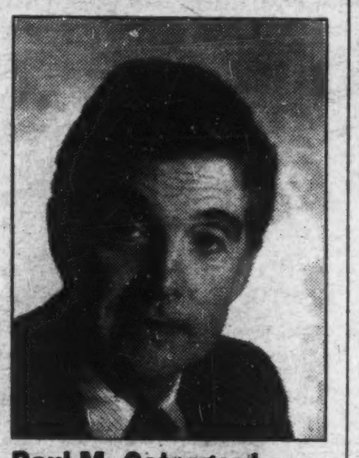
By FRANKLIN SMITH

Paul M. Ostergard is not an educator by training, but his experience organizing educational programs for inner-city students brought him to the attention of the nation's largest bank. This week, Mr. Ostergard becomes vice president of corporate contributions for Citibank, where he will supervise $22 million in annual donations for education, human services, and the arts.

Mr. Ostergard, 50, spent 16 years with General Electric Co., Fairfield, Conn., most recently as head of its contributions program and president of the GE Foundation. There he pioneered the notion of business partnerships with poorly funded or inner-city schools to prepare students for college.

He said that at New York-based Citibank he expects to continue seeking ways to improve access to higher education.

"There is a need to put more emphasis on looking at every youngster in our school systems to see if they are capable of doing work beyond the high school level," Mr. Ostergard said. "We need to make sure the students are adequately prepared for the college or university level."


Paul M. Ostergard

Citibank and its parent, Citicorp, recently committed almost $11 million in grants to help improve student achievement at needy public schools.

"I was reponsible for overseeing contributions to some 35 inner-city schools across the country in a major effort by GE to help turn these schools around," Mr. Ostergard said. "GE volunteers, mentors, and tutors all worked together to help build the students' self-esteem."

As concern grows about the quality of the work force, education has become a major beneficiary of corporate giving. Nationally, corporate aid to education was $2.1 billion in 1988, or 44% of all charitable contributions by corporations, according to the *Chronicle of Philanthropy*, based in Washington. Of that aid, 65% went to colleges and universities, 9% to precollege institutions, and 22% to other programs.

"There are new ways to approach the inner-city school problems showing concern about the students' welfare and education," Mr. Ostergard said. "We can encourage human services organizations to bring programs to the schools to help in the educational process, along with helping prepare the students for colleges and the work force."

A 1961 graduate of Case Western Reserve University, Mr. Ostergard received a law degree from the University of Michigan and a master in public administration from Harvard University. Before joining GE, he was counsel to the Pennsylvania Co. and Trans World Air Lines, and served in the Air Force in Vietnam.

"I felt I had made my contribution to GE and wanted to make a change," Mr. Ostergard said. "Citibank interested me because of its new emphasis on education, and I want to sharpen its corporate contributions and advance its commitment to this area."

Mr. Ostergard reports to Sandra Meyer, senior officer for corporate affairs. □

Midwest Bank Earnings Edge Up

Most Institutions Do Well, but Writeoffs Cut Gains

By NANINE ALEXANDER

CHICAGO — Midwest banks posted modest profits in the fourth quarter as many institutions opted to clean up their balance sheets with writedowns and increases in provisions for sour loans.

"With a few exceptions, the performance of midwestern banks is generally still good," said Steven R. Schroll, managing director of research at Piper, Jaffray & Hopwood Inc. "But the economy has softened and the Midwest is not immune."

Earnings gains on average were in the 3% to 4% range, in line with analysts' expectations. However, some analysts said they were surprised – and concerned – by the scope of the writedowns and the loan provisions taken.

4th-Quarter Earnings at Top Midwest Banks
Assets in billions, net income in millions

	Assets 12/31/89	Assets 12/31/88	Net income 4Q '89	Net income 4Q '88	Percent change
First Chicago Corp.	$47.9	$44.4	$122.9	$137.3	(10.0)
PNC Financial Corp.	45.1	40.6	1.5	119.1	(98.7)
Mellon Bank Corp.	30.6	30.2	6.0	48.0	(87.5)
Continental Bank Corp.	29.5	30.6	(58.0)	23.0	NA
Banc One Corp.	26.6	25.3	92.6	87.5	5.8
NBD Bancorp	25.8	24.2	66.6	60.9	9.3
Norwest Corp.	24.3	21.8	61.1	55.9	9.3
National City Corp.	23.0	23.6	58.8	56.8	3.0
First Bank System Inc.	20.8	24.2	(107.0)	(427.4)	NA
Boatmen's Bancshares	14.5	14.7	33.2	(51.0)	NA

Source: Company reports

Eye on Problem Loans

"Any increase in problem loans is something that must be watched at this stage in the business cycle," said Harriet Hancock, an analyst at Chicago Corp.

Despite their concerns, analysts said the fourth quarter was an opportune time to take writedowns and increase provisions. "In a slowdown, asset quality suffers, so it makes sense to build reserves before that," Kenneth F. Puglisi, senior vice president for research at Keefe, Bruyette & Woods Inc.

Mellon Bank Corp. and PNC Financial Corp. reported huge declines related to big loan-loss provisions for Third World loans. Mellon's profit dropped 87.5% to $6 million because of a $100 million provision.

PNC Profits Plunge

PNC Financial's earnings plunged 98.7% to $1.5 million after it took a $180 million provision. Both institutions are based in Pittsburgh.

At Michigan National Corp., profits rose 3.4% to $24.2 million despite a $24 million addition to its loan-loss reserve. Mr. Puglisi said the provision was about three times greater than he had expected.

Vernon L. Patterson, a vice president at Farmington Hills-based Michigan National, said the company took the move because it wanted to do "everything we could to strengthen the balance sheet."

First Bank Still Weak

First Bank System Inc. continued to be the region's most troubled bank. The Minneapolis-based bank company reported a $107 million loss after increasing its provisions for credit losses to $175 million, compared with $23.9 million a year earlier. Total provisions for the year were $253.5 million, up from $76.0 million in 1988.

First Chicago Corp. increased its loan-loss provisions 50% to $75 million, a move that contributed to a 10% drop in earnings to $122.9 million, or $1.77 a share. The company's nonperforming assets increased to $1.1 billion, or 3.8% of the company's total loan portfolio, from $876 million, or 3.1% of its portfolio, at the end of 1988.

Continental Bank Corp., which reported a $58 million

See **MOST** *page* **16**

Corrections

Citibank has provided further details of its relationship to Prospect Street Investment Management Co., as described in a Feb. 9 article, "2 Bank Funds Bravely Target Leveraged Loans" (page 1). Citibank says it acted as investment banker, placement agent, and helped structure Prospect Street Senior Portfolio LP, but put no equity into the deal.

The fund is capitalized with 80% senior debt and 20% subordinated debt and equity. Citibank says the rating agencies base their evaluation of the paper on the rating of the company that issues the surety bond, not on the degree of overcollateralization.

■

A Feb. 12 article ("Big Bank Profits Hurt by Provisions," page 12) incorrectly identified the top banking industry earner for 1989. It was BankAmericaCorp., with net income of $820 million.

NEWS *briefs*

BFS Bancorp Sues Suitor, Alleging Legal Violations

NEW YORK — BFS Bancorp said it filed suit against First Capital Group Inc. in U.S. District Court in Delaware, alleging violations of federal securities and banking laws and proxy solicitation rules.

Actions disclosed by First Capital in an amended 13D filing with the Securities and Exchange Commission prompted the lawsuit, said Bristol, Conn.-based BFS. The Office of Thrift Supervision is also reviewing the matter, according to the company.

Last month, BFS rejected a $16-a-share acquisition offer from First Capital.

2 Japanese Banks' Issues Given New Ratings by S&P

NEW YORK — Standard & Poor's Corp. said it downgraded Mitsui Bank Ltd.'s senior debt and long-term letter-of-credit-supported issues to A-plus from AA-minus.

The rating agency affirmed the A1-plus rating of the bank's commercial paper, certificates of deposit, and short-term letter-of-credit-backed issues, as well as the same rating on Mitsui Bank Canada's certificates of deposit and the global commercial paper program of Mitsui Finance International.

The rating on Taiyo Kobe Bank's commercial paper, certificates of deposit, and letter-of-credit-backed issues was raised to A1-plus from A1.

Bank of New England Sale

BOSTON — Bank of New England Corp. said it completed the sale for $100 million of the Canadian portion of its McCullagh Leasing unit to General Electric Co. □

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TECHNOLOGY NEWS

Imaging Could Bring Big Payoff

Continued from *page* 1

That means using it to generate fees for the bank by charging for image statements and other image-based services. The Trans Data consumer survey showed that not only would customers prefer to receive copies of checks produced by imaging systems rather than the original documents, but many are willing to pay for the option.

Appeal Must Be There

This presents tremendous fee-generating opportunities for banks, but bank marketers must first be convinced that image-enhanced services truly have mass appeal.

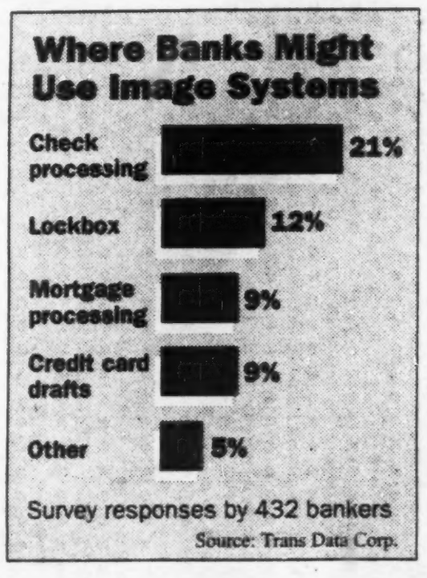
"Usually, you have the marketing people asking the operations people to develop systems to help them do something," said Steven Matzke, research associate with Trans Data in Wayne, Pa. "In this case, the operations people have had the technology for two years and haven't told the marketing people it exists."

Most of the emphasis to date has been on document processing and filing. In one common application, loan documents are converted into electronic images and stored in computer files, allowing banks to eliminate paper and streamline data communications.

Images are also useful in transmitting documents across long distances. MasterCard International has instituted a system allowing banks to obtain images of original credit card drafts within a few days. It typically takes 20 days to retrieve and send actual copies through the mail.

The shorter-term focus on cost-cutting opportunities has been a natural outgrowth of the wave of mergers, consolidations, and other profit-enhancing strategies.

"Companies are in general struggling to cost-justify their information systems," said Jane Stanhope, senior analyst at Cap International, a Norwell, Mass., subsidiary of Nynex Corp. "You can quantify cost savings in operations easier than you can quantify the benefits of increased customer services."



Equipment Is Costly

Image processing equipment is expensive, and many large banks that are implementing the technology want to justify the expense first and look at the marketing applications later.

"It's so new that you have to make it work before you can do too much 'blue sky,' " said Gilbert Arbuckle, senior vice president in the information management and research department at Mellon Bank, which is implementing image systems in its wholesale loan and check processing areas.

"It would be very difficult to make a business case to pay for equipment based on customer service benefits," said Mr. Arbuckle. "The equipment doesn't come cheap."

Ms. Stanhope said the major suppliers of image technology, including such as companies as International Business Machines Corp., Unisys Corp., and NCR Corp. have yet to supply complete systems that will allow banks to take full advantage of the technology's potential in marketing and customer service.

NCR Software to Work with Other Brands

By KAREN GULLO

NEW YORK — NCR Corp. this week introduced a line of software that will allow the company's computers to work with computer systems and software from other suppliers.

The software is based on the concept of "open, cooperative computing," meaning that different computers and software can operate together and that computing tasks can be shared among systems in a corporation.

For instance, information inside IBM or Digital Equipment Corp. computers at a bank headquarters can be shared with and computed by NCR systems at branches. Programs that operate under IBM's Operating System/2 and other standard computing platforms will also run on NCR systems.

Glibert P. Williamson, president of Dayton, Ohio-based NCR, said the company will begin selling the software, called Cooperation, in the second half of this year. A new set of financial software for the banking industry developed under the Cooperation concept will be introduced in the third quarter.

"Most banks have four or five different mainframes doing different things – ATM processing, customer information, or trust applications – and different people would have different terminals to access these mainframes," said Mr. Williamson.

"Cooperation will allow the branches to tap into data bases on those mainframes and provide the information to allow selling at the platform level," he said.

Cooperation costs from $30,000 to $90,000 for a system accommodating 16 users, and $90,000 to $180,000 for 64-user system.

Cooperation consists of basic computing components such as software management, security, and communications, plus a set of services for retrieving, managing, editing, and sending information among a variety of computers.

NCR will continue to support customers' existing software, but all new computer systems, including imaging systems for document and item processing due late this year, will operate under the Cooperation umbrella.

The new software is compatible with existing software, but some programs in use at banks will have to be changed to run in the Cooperation framework. □

MTI to Buy Trade Services Software Unit

By JEANNE IIDA

NEW YORK — Management Technologies Inc., a New York software vendor specializing in international banking programs, has agreed to acquire the Trade Services System division of Warrington Financial Systems Inc.

MTI will add to its product line the Warrington unit's letter of credit and collection software. MTI plans to buy all of Warrington's outstanding shares for a sum to be determined at the closing Feb. 28.

Sungard Pays $65.3 Million

Early last month, Sungard Data Systems Inc., Wayne, Pa., announced it would pay $65.3 million for all of Warrington except the trade services division. The bulk of Warrington's revenue comes from securities-related back-office software. Sungard provides backup computer services in addition to securities processing systems.

Warrington's trade services division, based in Cambridge, Mass., will become a wholly owned subsidiary of MTI.

Integrated Product Line

MTI offers systems for international banking areas, including commercial lending, foreign exchange, electronic funds transfer, money market trading, and wholesale demand deposit accounting. It plans to integrate the Warrington software into its product line to make it easier for bankers to keep track of their risk levels.

MTI also offers an integrated back-office system that runs on IBM and IBM-compatible mainframe computers. A version runs on fault-tolerant machines from Stratus Computer Corp. that are also marketed by IBM as the System/88.

The version for Stratus also has a trading-room system for foreign exchange and money market dealing, as well as back-office processing.

Useful to Regional Banks

MTI said the Warrington products, in conjunction with the rest of its offerings, could also be used by regional banks to enhance cash management reports to corporate customers.

"There's a trend away from giving the same DDA [demand deposit accounting] system to retail as to corporate clients," said Barrington J. Fludgate, chairman of MTI. He said his company's software can handle the large-volume transactions of corporate accounts and can break down information into greater detail than is required for retail customers. □

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Thomas J. O'Shane,
President, First Western Bancorp

"We selected the Comprehensive Banking System software because we expected it to keep us competitive," recalls Thomas J. O'Shane, president of First Western Bancorp of New Castle, Pennsylvania. "It has."

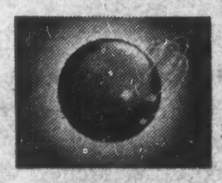
"With CBS we can originate or enhance new products quickly, keeping us ahead of our competition. With the stability, flexibility and growth capacity of CBS, our founding bank, First National Bank of Western Pennsylvania, has grown from $200 million in assets to $350 million.

"Beyond that, the Comprehensive Banking System software easily absorbed the additional load experienced with our acquisition of Beaver Trust Company. That acquisition nearly doubled our assets to $600 million.

"We are currently negotiating another acquisition which will bring us to over $1 billion in assets. We anticipate that the IBM AS/400 hardware and Comprehensive Banking System software will take the merger in stride.

"As far as we're concerned, CBS and IBM are the unbeatable data processing combination."

If you would like to know more about the flexibility and reliability of Comprehensive Banking System software or to talk with other bankers using the system, contact Joan Skimmons, Citicorp Information Resources, Four Stamford Forum, Stamford, Connecticut 06901, Telephone (800) 243-4222 or (203) 351-4900.



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COMMENT / By Stephen H. Axilrod

Message from the Markets

The U.S. credit markets have just weathered a very difficult period. The worst is probably over, but skies are far from clear and the wind direction is best described as variable.

The markets had to absorb a large supply of Treasury and related issues, including long-term offerings at the time of the recent regular quarterly refunding and an unusually long 40-year issue from the Resolution Funding Corp. to finance the bailout of thrifts. It took an extraordinary backup in market rates from the lows of late last year to make these financings go.

There were good reasons for the backup, apart from the weight of new supply. The Fed had come to a pause in the easing process, and it began to look – from policymakers' comments if not from the flow of data – as if the pause would be prolonged. Moreover, interest rates had risen sharply in key markets abroad. And a few basis points can be added from the decision to offer something so novel and risky as a 40-year RFC bond in a market environment that was uncertain at best.

A market movement such as we have witnessed in bonds generally also has deeper roots – recognizable only later as they spread more widely. For instance, the October 1987 stock market crash had many proximate causes – program trading, unusually high price-earnings ratios, a feared breakdown in international cooperation – all of which have been tortuously analyzed.

End of a Speculative Era

But in a deeper sense the crash marked the end of a long period of speculative wealth creation, in large part debt-financed, and a shift toward more conservative attitudes in markets. The collapse of the junk bond business accelerated. Acquisitions, leveraged buyouts, and the like became less easy to promote and finance, and real estate prices weakened more broadly around the country.

A shift toward more conservative attitudes was basically good for bonds, but only for relatively safe ones, Treasuries in particular. That shift supported the bond market for some time, and still does to a degree.

However, the bond market got carried away with the idea that the economy was weak and it would be simple for the Federal Reserve to control inflation. The economy probably is on the weak side, but the bond market now realizes that it will not be simple for the Fed to control inflation. That's the underlying message from the yield backup since the beginning of the year.

It won't be simple because more inflation than the Fed apparently will tolerate now seems to be embedded in the economy. The basic problem lies with labor costs.

After rising at a very moderate pace for several years, unit labor costs ratcheted up to about a 4.5% rate of gain last year. That happened partly because a number of years had passed without further progress in reducing price inflation, and during the past two years inflation had actually crept up.

Thus, with the economy near full employment and real income threatening to deteriorate, wage pressures were bound to become stronger. The wonder is that they have remained fairly well contained even so.

Monetary policy is now in a vise. It cannot ease significantly without building more inflation than it wants into the economy. It cannot tighten significantly without putting even more downward pressure on corporate profits and precipitating a deeper recession than it would like to see. Bonds have been priced to better reflect the dilemma and risks inherent in that situation.

Reaction from Abroad

The constraints faced by domestic monetary policy in the United States were made even clearer by actions taken abroad. Interest rates have risen sharply in Germany and Japan, as those countries decided to curb their own inflation potential. Inflation rates there are less than in the United States, but the value of their currencies had been declining on exchange markets and threatening even more inflation.

Their actions signal that the United States can no longer expect foreign countries readily to support spending here. In effect, it has now become more expensive for the United States to attract funds from abroad. Actions taken abroad have effectively tightened monetary policy here even while the Federal Reserve has, by its own lights, maintained an unchanged stance.

Whatever type of landing is ultimately made by the U.S. economy as it adjusts to lower inflation, the markets have told us that it will not be as soft as seemed probable a few months ago. Indeed, the landing of the U.S. economy could get particularly hard if efforts are made – either directly here or indirectly as a result of actions abroad – to reduce inflation too rapidly. Some progress in fighting inflation must finally be made, but the various fragilities in U.S. markets – with the Drexel Burnham situation only the latest indicator – all argue for making progress slowly. □

Mr. Axilrod is vice chairman of Nikko Securities Co., New York.

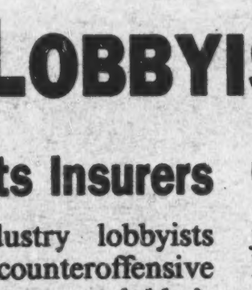
THE LOBBYISTS / By Barbara A. Rehm

ABA Fights Insurers

Banking industry lobbyists are waging a counteroffensive against the insurance lobby's campaign to convince Congress that states should not be permitted to let banks enter the insurance business.

It's not clear which side is winning, but House Banking's financial institutions subcommittee has scheduled hearings for April 4-5 on the matter.

The furor began late last year when a federal appeals court cleared the way for **Merchants National Corp.** to sell insurance through two state bank subsidiaries in Indiana. Indiana law, unlike federal law, permits banks to sell insurance.



Philip S. Corwin

In January, the **Independent Insurance Agents of America** papered Capitol Hill with warnings that the decision opened the door for states to grant all sorts of new powers to banks.

This month a coalition of bank trade groups led by the **American Bankers Association** responded with its own letter to lawmakers.

Ten House Banking Committee staffers on Monday viewed a videotape produced by the ABA that explains the benefits of letting banks into the insurance business, namely, greater competition and lower prices for consumers.

"There is no substantive objection," from the staffers claims **Philip S. Corwin**, the ABA's director of operations and retail banking. "In fact, there is a lot of agreement that consumers would be better off."

If the insurers push for a bill to ban banks from insurance, Mr. Corwin says, "That is something the industry is completely unified in fighting . . . I think that would be the biggest battle since the powers moratorium." In 1987, Congress barred regulators from expanding bank powers for a year.

* * *

Consumer Legislation Is Lilac's Prime Target

Fifty banking lobbyists are in Boca Raton, Fla., this week for the annual meeting of the **Legislative Liaison Advisory Council**, or Lilac, as the group is called.

"This meeting has, over the years, grown to be a fairly important meeting," said **Edward L. Yingling**, executive director government relations at the **American Bankers Association**. "It's a real opportunity to get together, learn, build team spirit, and lay out the strategy for the coming year."

Charles J. Zwick, chairman and chief executive officer of **Southeast Banking Corp.**, Miami, is the keynote speaker. Mr. Yingling said the lobbyists usually invite a banker to give them an overview of the industry.

These lobbyists' No. 1 goal is fending off consumer interest legislation, such as measures that require banks to cash government checks or provide lifeline checking. But they are also interested in battling attempts to use banks in the war on drugs. Of special interest right now is a bill being contemplated by Sen. John Kerry, D-Mass., which would revoke a bank's charter if it was caught laundering money.

Lawmakers addressing the group include: **Sen. Ernest F. Hollings**, D-S.C.; **Sen. John Breaux**, D-La.; and **Sen. Bob Graham**, D-Fla.; **Rep John Hiler**, R-Ind.; **Rep. Bill McCollum**, R-Fla.; and **Rep. Joe Moakley**, D-Mass.

* * *

Hohlt to Quit League

Controversial S&L lobbyist **Richard F. Hohlt** is leaving the **U.S. League of Savings Institutions** staff. Soon after March 16, his 10-year anniversary with the trade association, Mr. Hohlt will become an industry consultant.

Mr. Hohlt is likely to hook up with an existing consulting firm, but plans to devote half of his time to a contract with the league.

Richard Hohlt

"He is going to go out on his own, bottom line, but I have asked him to stay on as a consultant with 50% of his time," says league president **Frederick L. Webber.**

The league has gone through a spectacular metamorphosis in the past few years, from lobbying powerhouse to lobbying pussycat.

Mr. Webber admits that since he took over in November 1988, he has tried to recast the league's image as a trade group ready to work with – not against – the government.

Mr. Hohlt, 41, is part of the old guard at the league. He is alternately credited and blamed with persuading lawmakers back in 1987 to keep the recapitalization of the insolvent Federal Savings and Loan Insurance Corp. to $10 billion, a sum that turned out to be a fraction of what was needed.

A second bailout followed – $50 billion last August – but this time things didn't turn out so well for the industry. The law imposes tough capital requirements and numerous operating restrictions on thrifts. Thus the industry is divided into those institutions that can survive the federal bailout and those that are doomed by it.

This division is making it tough for the league to represent the industry.

Mr. Webber insists that Mr. Hohlt is leaving mainly because he has salted away 10 years with the association and is ready for new challenges.

"I don't think Rick is a victim," he says. "He has a strong constituency in my membership. With this we get the best of both worlds."

Mr. Hohlt refused to answer questions about his future. □

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